

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L ROME 003313

SIPDIS

E.O. 12958: DECL: 07/18/2006

TAGS: [ECON](#) [EFIN](#) [IT](#) [EUN](#)

SUBJECT: ITALY'S EU PRESIDENCY: ECOFIN DEBATE OVER THE STABILITY PACT CATCHES GOI BY SURPRISE

REF: A. USEU BRUSSELS 3255

[B](#). ROME 1117

CLASSIFIED BY: ECONOMIC COUNSELOR KAREN MILLIKEN FOR REASONS 1.5 (B)

[1](#). (SBU) FRENCH PRESIDENT CHIRAC'S CALL FOR A SOFTENING OF THE EU STABILITY AND GROWTH PACT IN A TELEVISED BASTILLE DAY INTERVIEW THE SAME EVENING AS THE JULY 14 MEETING OF EUROZONE FINANCE MINISTERS IN BRUSSELS (USEU SEPTTEL) TOOK GOI OFFICIALS BY SURPRISE, CARLO MONTICELLI (PLEASE PROTECT), SENIOR DIRECTOR FOR G7 AND EU AFFAIRS AT THE FINANCE MINISTRY, TOLD US ON JULY 17TH. MINISTERS ALSO WERE UNPREPARED BY THE STRONG REITERATION OF CHIRAC'S CALL BY FRENCH FINANCE MINISTER FRANCIS MER. THEY WERE EQUALLY TAKEN ABACK BY THE MOVE BY AUSTRIA'S KARL-HEINZ GRASSER AFTER THE MEETING TO BREAK THE EUROGROUP "CODE OF SILENCE" AND TALK TO THE PRESS ABOUT MER'S INTERVENTION. GOING PUBLIC ABOUT WHAT TRANSPIRED IN THE CONFIDENTIAL DISCUSSIONS OF THIS INFORMAL GROUP IS UNPRECEDENTED.

[2](#). (SBU) GOI OFFICIALS, REMARKED MONTICELLI, BELIEVE EUROPE'S INTERESTS WERE ILL-SERVED BY WHAT BECAME A PUBLIC SPAT AFTER FRANCE CRITICIZED AUSTRIA AND MINISTERS FROM SEVERAL OTHER SMALL COUNTRIES TOOK GRASSER'S OPENING AS AN OPPORTUNITY TO PILE ON. HOWEVER, THE GOI DID NOT WANT TO EXACERBATE TENSIONS BY ISSUING A PUBLIC REPRIMAND TO AUSTRIA. IN AN ASIDE, MONTICELLI SAID THAT THERE WAS SOME CONSTERNATION AMONG ITALIAN OFFICIALS FOR BEING UNABLE TO MAINTAIN ORDER IN THE PROCEEDINGS. HE ALSO WRITELY NOTED THAT THE FIRST THREE WEEKS OF ITALY'S EU PRESIDENCY HAVE BEEN MARKED BY ATTENTION-GRABBING HEADLINES, AND NOT JUST BY THE ITALIANS.

[3](#). (C) REGARDING THE STABILITY PACT ITSELF, MONTICELLI SAID THAT FINANCE MINISTER TREMONTI, AS HE INDICATED IN BRUSSELS, CONTINUES TO STEADFASTLY SUPPORT THE PACT'S REQUIREMENTS. ITALIAN FINANCE OFFICIALS BELIEVE THAT FRANCE WILL EVENTUALLY COME BACK INTO THE "FOLD", AND TAKE MEASURES THAT WILL BRING FRANCE CLOSER TO, OR AT LEAST BE LESS IN BREACH OF, PACT REQUIREMENTS. THE PEER PRESSURE FROM THE OTHER MINISTERS ON FRANCE IS AND WILL CONTINUE TO SIGNIFICANT, HE ARGUED. FRENCH OFFICIALS, HE CONTINUED, THEMSELVES SAID AT THE LAST ECOFIN THAT FRANCE WOULD STRIVE TO MEET THE THREE PERCENT DEFICIT TARGET IN 2004 (REFTEL). MONTICELLI ALSO COMMENTED THAT NOT ONLY SMALL COUNTRIES ARE BECOMING IMPATIENT WITH FRANCE AND GERMANY. ALTHOUGH THEY ACKNOWLEDGE THAT THE STABILITY PACT IS A TIGHT STRAIGHT-JACKET, SOME GOVERNMENTS ARE NOT SYMPATHETIC TO FRANCE AND GERMANY, WHICH CHOOSE NOT TO PUT THEIR FISCAL ACCOUNTS IN ORDER IN BOOM YEARS AND ARE NOW ASKING FOR ADDITIONAL BREATHING SPACE, HE SAID.

[4](#). (SBU) THAT SAID, MONTICELLI NOTED, THERE DOES SEEM TO BE SUBTLE SHIFTS IN THE VIEWS OF SOME MEMBER STATE GOVERNMENTS REGARDING THE STABILITY PACT AND ITS LIMITATIONS ON DEFICIT SPENDING. MANY POLITICAL LEADERS ARE LOOKING AT THE EXPERIENCE OF THE UNITED STATES, WHOSE BUDGET DEFICIT IS EXCEEDING FOUR PERCENT OF GDP BUT ALSO WHOSE GDP GROWTH RATE IS EXPECTED TO BE AT LEAST ONE PERCENT HIGHER THAN EUROPE IN [2004](#). UNFORTUNATELY, WE WILL NOT KNOW WHICH STRATEGY - THE U.S. OR THE EUROGROUP'S - IS THE RIGHT ONE FOR AT LEAST FIVE YEARS, HE REMARKED.

[5](#). (C) COMMENT: FINANCE MINISTER TREMONTI NEEDS TO TOE A FINE LINE IN BOTH PUBLIC AND BACK-DOOR DISCUSSIONS ON THE STABILITY PACT. TREMONTI HIMSELF HAS BEEN SKEPTICAL ABOUT THE PACT AND TOLD US, AS RECENTLY AS MARCH, THAT HE WAS CONCERNED THAT THE STABILITY PACT DID NOT PROMOTE SUFFICIENT GROWTH (REFTEL B). THE CALL BY SOME ITALIAN OFFICIALS, INCLUDING THE DEFENSE AND EDUCATION MINISTERS, FOR AN EASING OF PACT REQUIREMENTS ALSO HAS PRESSURED TREMONTI TO ALLOW FOR DEBATE ON THE PACT ITSELF IN THE EUROGROUP. NONETHELESS, DURING ITALY'S EU PRESIDENCY, TREMONTI WILL CONTINUE TO FEEL RESPONSIBILITY TO DEFEND THE PACT. A WEAKENED OR COLLAPSE OF THE STABILITY PACT IS NOT THE LEGACY THE GOI WANTS FOR ITS PRESIDENCY. END COMMENT.

[6](#). (U) THIS MESSAGE WAS COORDINATED WITH USEU. KILNER

NNNN

2003ROME03313 - Classification: CONFIDENTIAL